PERSI Choice Plan Investment Policy

I. Plan Objective:

The Public Employee Retirement System of Idaho (PERSI) sponsors the PERSI Choice Plan (the "Plan") for the benefit of its members. The Plan is a self-directed defined contribution plan consisting of a gain-sharing component under section 414(k) of the Internal Revenue Code, and a 401(k) plan designed to receive voluntary employee contributions, rollovers, and employer contributions.

The plan provisions are outlined in Idaho Code § 59-1308, PERSI Rules and the Plan Document for the 401(k) plan. This plan is specifically designed in connection with the primary retirement benefit provided to qualified employees of public employers in Idaho by the PERSI Base Plan, a defined benefit plan. The Base Plan is designed to reward long-term employees by paying them a larger benefit. The Choice Plan is designed to be a portable, member directed defined contribution plan that is funded by tax-deferred contributions from employees and employers and from gain sharing allocations**.** <u>It is intended as a long-term investment vehicle, not a platform for speculative investment activities, such as day-trading or market timing.</u>

The Plan is a qualified employee benefit plan intended to comply with all applicable federal laws and regulations, including the Internal Revenue Code. The Plan's members and beneficiaries have different investment objectives, time horizons and risk tolerances. To meet these varying investment needs, members and beneficiaries will be able to direct their account balances among a range of investment options to construct diversified portfolios that reasonably cover each major asset class. Members and beneficiaries alone bear the risk of investment results from the options and assets mixes that they select.

II. Asset Allocation:

The purpose of asset allocation is to minimize risk over time given a specific return objective through the mix of correlated investment options. In a Defined Contribution (DC) plan, the asset allocation decision is made by participants, not trustees. Given the expectation that the average member is risk averse and concerned with loss of principal, the selection of funds in a plan should provide enough investment styles or sectors to mitigate risk. The industry average number of investment options offered generally varies between ten and twelve for 401(k) plans. The number of choices offered, however, is less important than that the choices be significantly differentiated in terms of risk/return, correlation of returns, style, and investment objective.

Upon enrolling in the Choice Plan, all new members' investments are defaulted to 100% to the PERSI Total Return Fund. This means that all future (not yet received) contributions will be invested entirely in the Total Return Fund until the member elects other choices. When rolling money into the Plan, members may allocate among funds by completing the back page of the Rollover Form; otherwise their money defaults to the Total Return Fund.

Members are allowed to transfer their existing account balances or direct future contributions among all 11 funds offered under the Choice Plan at any time and with any frequency they wish; <u>however, the Board may impose restrictions that discourage rapid trading and market timing by participants that could adversely impact other participants.</u>

III. Roles and Responsibilities

The Board created pursuant to Idaho Code section 59-1304 of the Idaho Code to manage the Public Employee Retirement System of Idaho (the “Board”) administers the Plan.

The Board shall have the power and duty of managing the Choice Plan, and discretionary authority to construe the Plan, and to determine, consistent with the terms of the Plan, all questions relating to (a) the eligibility of individuals to participate in the Plan, (b) the amount of benefits to which any Member or Beneficiary may become entitled hereunder, and (c) any situation not specifically covered by the provisions of the Plan. This includes the power and duty to:

1. Appoint, evaluate, and replace the Custodian who maintains non-discretionary custody of plan assets.

2. Select, evaluate, and replace investment products in which plan assets may be invested.

3. Establish policies for investment education and communications programs intended for member use.

4. Direct the investment of plan assets in lieu of member direction when required to facilitate the operation of the plan.

5. Select, evaluate, replace or terminate independent consultants, investment managers, service providers and other vendors of the plan.

IV. Fund-selection Criteria

In the exercise of fiduciary discretion, the Plan will seek to offer investments that provide members with a diversified choice of options representing major financial asset classes with a focus on core funds that tend to be style neutral, and a choice of management styles, as well as provide liquidity sufficient for member-directed withdrawals.

The PERSI Board has adopted a range of investment options that cover the major, generally accepted asset classes including both actively and passively managed investments. It includes the PERSI Total Return Fund (TRF), which is co-invested in the total Base Plan and is used as the default fund. Initial contributions (such as the first payroll deductions) will be placed in the PERSI TRF. Upon receipt of a PIN number from Mellon HR Solutions the record keeper for the Choice Plan, the member may reallocate existing and future funds from the PERSI TRF to any of the other investment choices at any time. Unless the member takes action to transfer his/her funds or changes his/her investment allocations, the funds will remain in the PERSI TRF, and future contributions will continue to be placed in that account.

PERSI, recognizing that the retirement savings needs are long term and that investment competence must be measured over a complete market cycle, does not expect to be reactive to short-term manager performance.

V. Risk/Return

Each member is responsible for directing his/her own contributions to any or all investments choices offered by the Plan Sponsor, thereby determining the amount of risk he or she assumes. Risk can be defined as the volatility of returns (standard or semi standard deviation) or the probability of not achieving a desired investment outcome. While the Plan Sponsor can monitor the level of risk involved in a given fund by measuring its standard deviation, it cannot guarantee that any member will achieve a certain investment outcome. PERSI maintains a fiduciary responsibility to offer investment funds of differing asset classes across the risk spectrum to help facilitate diversification of a member's portfolio.

VI. Investment Management Styles

While each member is responsible for his/her own portfolio, it is the intention of the Plan Sponsor to offer investment choices with different management styles. The Plan's main areas of equity diversification are: active vs. passive (indexing), market capitalization (large cap vs. small cap) and geography (domestic vs. international). A member can diversify his/her portfolio by selecting funds with different management styles.

Selection of Investment Managers

The Board may select any of the following:

- Outside mutual funds
- Outside commingled funds
- Brokerage window
- Current PERSI managers

The Current PERSI manager option includes co-investing the DC Choice Plan assets along with the DB Base Plan assets.

When it is determined that a fund needs to be replaced or added, the Board will direct whether the managers will be selected by an outside consultant or through an in-house search process conducted by PERSI's Chief Investment Officer and an Investment Team consisting of PERSI's Chief Investment Officer, Investment Officer, Executive Director, and the DC Plan Specialist. In the case of an in-house search process, the Investment Officer performs the search and then presents to the Investment Team the details of the search process as well as recommendations for the top three managers. The Investment Team recommends their top choice to the Board supported by the documented reasoning for each recommendation. Criteria for the search will consider both quantitative and qualitative information including, but not limited to, fund performance compared to benchmark, style consistency, investment staff stability, management fees and relevant portfolio data.

The asset classes currently approved by the Board are:

S&P 500 Index

This option will seek to match the performance and characteristics of the Standard & Poor's 500® Index. The fund should provide long-term capital growth by investing in the stocks of the 500 largest domestic companies. The fund should hold each stock in proportion to its weight in the index.

Aggregate Bond Index

The Aggregate Bond Index Fund will seek to replicate the performance and characteristics of the Lehman Brothers Aggregate Index, a broad fixed-income index covering the U.S. investment grade bond market. Sampling is authorized.

Large Cap Core Fund

This option will seek long-term growth of capital and income from dividends. The fund should invest in a diversified group of stocks and should seek to provide higher returns than the unmanaged Standard & Poor's 500 ® Index while having similar risk characteristics. The fund should be actively managed.

Midcap Stock Fund

The fund seeks investment returns (consisting of capital appreciation and income) that are consistently superior to the Standard & Poor's Midcap 400 Index (S&P 400). The fund should be actively managed.

Small Cap Core Fund

The fund seeks investment returns that are consistently superior to the Russell 2000 Small Cap Index. The fund should be actively managed.

International Equity Core Fund

Fund seeks long-term capital appreciation by investing principally in common and preferred stocks of foreign companies and securities that are convertible into such common stocks. The fund should invest in developed markets and be actively managed.

Core Plus Fixed Income Fund

The fund seeks a high and stable rate of current income, consistent with long-term preservation of capital. A secondary objective is to take advantage of opportunities to realize capital appreciation. The fund should be actively managed.

Stable Value Fixed Income Fund

The fund seeks to provide high current income, with the preservation of capital as the primary objective. The fund should be actively managed.

Broad Market Index Fund

The fund seeks to match the performances and characteristics of the Wilshire 5000® Index providing long-term capital growth from exposure to stocks that represent the entire U.S. equity market. Sampling is authorized.

International Equity Index Fund

The fund seeks to match the performance and characteristics of the MSCI EAFE® (Free) Index. The fund should provide long-term capital growth by investing in international stocks. The fund should invest in developed markets and hold each stock in proportion to its weight in the index.

PERSI Total Return Fund (TRF)

The PERSI TRF is totally composed of all PERSI DB Plan managers.

VII. Trading Practices:

The PERSI Choice Plan is intended to provide eligible members with the long-term accumulation of retirement savings through tax deferred contributions to individual member accounts and the earnings thereon. As such, the plan is not designed as a vehicle for excessive trading or market timing. Frequent trades or market timing in the PERSI Choice 401(k) Plan have the potential to disrupt management of the fund and increase its expenses.

If the Board determines that excessive trading practices exist that have the potential to adversely affect the costs or other participants' performance, PERSI will implement trading restrictions on those funds affected. Restrictions will be made on a case-by-case basis and may be modified from time to time as conditions evolve based on available remedies.

VIII. Investment Monitoring and Reporting

PERSI evaluates investment managers on the basis of a number of quantitative and qualitative criteria, including, but not limited to the managers' expertise, fees and firm characteristics, and how the managers complement the relevant attributes of the other investment managers. PERSI prefers giving managers broader mandates rather than requiring the managers to conform to narrow mandates.

PERSI expects a manager to manage the portfolio in the expected manner and with the capabilities and personnel as when originally hired. Although short-term performance is tracked, it is only longer-term poor performance (rolling 3-5 year performance against both benchmarks and peers), or change in style or staffing, that triggers a formal review.

An independent external consultant will monitor investment performance activity. Performance will be reviewed through quarterly, comprehensive analysis and reports and will be presented to the Board on a quarterly basis. The investment managers and external consultants will be monitored and subject to formal review and/or replacement if PERSI believes it is to the overall benefit of its members.

The quarterly reports will include a comprehensive analysis containing, but not limited to, review and evaluation of investment funds, including: performance to benchmark; comparison to peer group of funds (where applicable), manager peer groups (where applicable), manager style analysis, risk vs. reward, and other relevant portfolio data (e.g. turnover rate).

PERSI may evaluate the performance of the investment vehicles more frequently than quarterly if it deems prudent to do so. PERSI's decision to retain or eliminate any investment vehicle offered under the plan will be based on the criteria listed above and will also take into consideration the importance of providing consistent, long-term performance to members. After reviewing the "fund performance report" PERSI may take the following measures:

1. Continue to offer the fund in the Plan.

2. Place the fund on "watch" status for more detailed analysis. A fund may remain on watch status as long as the Board/Investment Team deems it prudent.

3. Eliminate the fund, requiring Members to transfer their current balances to other investment alternatives.

4. Remove a fund from "watch" status based on improvement in the investment monitoring criteria outlined above.

These steps need not be taken in progressive order or within any particular time frame.

IX. Member Education and Communication

The PERSI education program is focused on increasing member knowledge of the PERSI Base and Choice Plans and to provide them with a strong foundation for personal financial and retirement planning. One component of this program involves encouraging members to participate in a retirement savings plan.

The Board wants to ensure that our members have the education and information necessary to make informed financial planning and investment decisions. Members should be comfortable with investment-related terminology and their knowledge of the investment options available to them. The Board encourages a life-long, well thought-out, retirement savings and investment plan.

To ensure the best possible education program, Choice Plan education goals are to provide members with knowledge of:

· The PERSI Base Plan (Retirement Benefits, Disability Benefits, Separation Benefits, COLAs, The Value of their Benefits)

· The PERSI Choice Plan (Gain Sharing, Investment Options, Voluntary Contributions)

· Other DC plans available (457, 403(b), 401(a), IRA, etc)

· Financial Planning (Terminology, Strategies, Budgeting, Asset Allocation, Tax Consequences)

- Social Security
- Other Income Sources

The goal is for PERSI's members to understand how all of the retirement plans work together to provide a financially secure retirement without negatively affecting their current standard of living.

A variety of communication methods are used to accommodate different learning styles and help ensure repeated exposure to PERSI's messages. Methods of communication include:

- Web-based information including an interactive financial and retirement planning calculator
- Printed materials (Quarterly Newsletters, Correspondence, Choice Plan Highlight Piece, Choice Plan Guide, PERSI Member Handbook)
- Toll-free call center with Financial Planning Counselors
- Websites (for Asset Transfers, Rates of Return, Fund Information and more)
- Group Seminars offered by PERSI education staff at various locations and times throughout the State.

The PERSI Seminars are offered as in-person presentations. A tiered workshop approach is also offered. A variety of different workshops intended to meet the needs of members with different levels of investment knowledge, investment time horizons and risk tolerances at different career stages are also offered.

X. Coordination with the Plan Document

Notwithstanding the foregoing, if any term or condition of this investment policy conflicts with any term or condition in the Plan document, the terms and conditions of the Plan document shall control.

XI. Adoption:

The Board adopted this Investment Policy on the 16th day of December, 2003. Amendments to this policy statement are allowed, as needed, upon the approval of the Board.